

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE
MOTION TO COMPEL RESPONSE TO INTERROGATORY OCA/USPS-T22-12
TO UNITED STATES POSTAL SERVICE
WITNESS DAVID R. TREWORGY
September 18, 1997

The Office of the Consumer Advocate ("OCA") files this Motion to Compel in response to the United States Postal Service Objection to Interrogatory OCA/USPS-T22-12, filed September 12, 1997. The text of the interrogatory in question is as follows:

OCA/USPS-T22-12. Please refer to your Worksheet C-1 and C-2, concerning the scanning infrastructure capital and program costs and the distribution key for volume variable costs. Please update your Worksheet C-1 and C-2 to reflect the \$218 million contract awarded to Lockheed Martin.

The subject interrogatory should be read in conjunction with the accompanying interrogatories:

OCA/USPS-T22-9. Please refer to your testimony at page 1, lines 10 and 11, concerning the estimate of certain costs related to scanning equipment.

- a. Please confirm that the Postal Service has awarded a firm-fixed price contract to Lockheed Martin Federal Systems

(herein Lockheed Martin) for scanners. If you do not confirm, please explain.

- b. Please confirm that the contract to Lockheed Martin was valued at \$218 million. If you do not confirm, please explain and provide the correct figure.
- c. Please confirm that the contract to Lockheed Martin was for the purchase of 300,000 scanners. If you do not confirm, please explain and provide the correct figure.
- d. Please confirm that the contract to Lockheed Martin will involve the integration and deployment, and in-office computer systems infrastructure, of scanners at 32,000 postal facilities. If you do not confirm, please explain and provide the correct figure.

OCA/USPS-T22-10. Please refer to your Worksheet C-1, concerning the scanning infrastructure capital and program costs.

- a. Please confirm that the capital and program costs listed in Worksheet C-1 can be characterized as the purchase, deployment and integration of scanners, and development of in-office computer systems infrastructure. If you do not confirm, please explain.
- b. Please confirm that figure, \$185,543,800, represents the estimated total capital and program costs. If you do not confirm, please explain.

OCA/USPS-T22-11. Please refer to your Worksheet C-1, concerning the scanning infrastructure capital and program costs. Please confirm that the estimated "Total capital and program costs" of \$185,543,800, and the \$218 million contract awarded to Lockheed Martin are comparable figures. If you do not confirm, please explain the relationship of these two figures, and reconcile any differences.

The Postal Service proposes in this docket to institute a significant new service – delivery confirmation (“DC”) for Priority Mail and Standard B customers. That the Postal Service believes this is a critical proposal can be gleaned from an internal document:¹

Federal Express (FedEx), UPS, and Roadway Package System (RPS) have all used information technology to increase their competitive positions. FedEx and UPS spend \$500 to \$750 million annually on track and trace and other related information technology. Analysis of competitors’ market share suggests that information about delivery status helped them to sustain higher levels of growth than would have occurred with service improvement alone. Market research shows that a similar effect may be expected for Priority Mail when delivery confirmation is implemented.

The price of the proposed service obviously is critical. For example, the Postal Service apparently rejected a proposal to provide “near real time delivery confirmation” because of the “additional \$294.2 million investment in communications equipment” that would be required.²

OCA has asked a series of interrogatories concerning witness Treworgy’s costing analysis. In addition to those referred to above, OCA recently submitted OCA/USPS-T22-18-29 to the same witness, many of which focus on the capital costs of the new service.

Finding the appropriate capital and program costs is important because of the significant expenditures involved. In order to run DC, new scanners will be used by the Postal Service. Witness Treworgy’s direct testimony shows substantial capital and

¹ LR H-247, Delivery Confirmation Infrastructure Acquisition, at 3.

² Id. at 6-7.

program costs for the scanners and related equipment. Worksheet C-1 indicates capital and program test year costs of over \$185 million.

However, there are substantial questions concerning whether all appropriate costs have been revealed, and if cost distributions have been made appropriately. For example, LR H-247, which was provided in response to a previous OCA interrogatory, states at page 10:

Capital investment of \$628.1 million and expense investment of \$76.2 million, totaling \$704.3 million, are recommended to acquire and implement the proposed delivery confirmation system. Of this investment, \$541.4 million will be used to acquire carrier scanners"

The revelation in LR H-247 that DC will require \$704.3 million for capital investment, of which \$541.4 million will be for scanners, is clearly something that needs to be delved into. Right now we have only unexplained test year estimates and projections.³ We need to ascertain, for example, whether any depreciation method used by the Postal Service is appropriate. But for any depreciation method to be useful, it must rely on accurate cost and contract information, which is something a response to the interrogatory will help achieve.

The capital cost question is made more complex because of the Postal Service's assertions that "the scanners ultimately will serve a variety of purposes, including delivery and collection management, service performance measurement, and mail item

³ A recent interrogatory response (OCA/USPS-T22-10(b)) states: "The figure \$185,543,800 represents only those capital and program costs *projected* to affect the Test Year." This is consistent with the response to OCA/USPS-T22-11, indicating that the capital costs set forth in Worksheet C-1 represent "only those capital costs *estimated* to be reported as depreciation in the Test Year" [emphases added.]

information acquisition.”⁴ Obtaining more information about the contract in question may shed light on to what extent the scanners will be used for non-DC purposes.

In sum, there are important questions to answer regarding whether we know all the capital costs, whether the costs have been properly assigned to DC, whether total costs (whatever they are) are being appropriately depreciated to the test year, and whether other costs are appropriately assigned to other classes of mail.

Unfortunately, the record is vague on these issues. Witness Treworgy’s generalized statement in his direct testimony that he had “*developed* certain capital and program costs for the scanner infrastructure program”⁵ appears to have been too strong an assertion.⁶ It now appears that his original capital and program costing analysis was based on a set of projections and estimates, not firm numbers. Projections and estimates may be the best information available, but in this regulatory context, participants have a right to know the bases for such projections and estimates, including any relevant contractual data. It should be noted that the subject interrogatory (and others in the same set) seek information about a contract revealed only in a newspaper article. The contract is an important piece in what appears to be an intriguing puzzle.

The Postal Service objection raises even more questions. The Postal Service says that “the cost of certain scanners may have been determined in the initial contract

⁴ Treworgy Direct Testimony at 2.

⁵ Id. at 18. [emphasis added.]

⁶ Webster’s New Collegiate Dictionary states the first definition of “develop” as “to set forth or make clear by degrees of detail.”

award”⁷ This may mean that the Postal Service now knows the *actual* scanner costs for the initial implementation phase, which, in turn, may be helpful in assessing test year costs. Why the Postal Service would object to updating its costing analysis to reflect this information is puzzling.

Next, the Postal Service says that “other pieces of the contract are still being negotiated” “Other types of scanners and more memory (RAM), for example, are matters under discussion. Various discussions involve both modifications to the initial contract award and related contracts” This suggests that there may be even higher test year costs than those initially projected. For example, it may be that the original projected system costs are understated, if “other types of scanners and more memory” need to be purchased. Certainly, “modifications to the initial contract award” strongly indicate the original projections need updating. We believe that it is the responsibility of the Postal Service to update its cost information for the record, as required by Special Rule 2 (C): “Participants are expected to serve supplemental answers to update or to correct responses whenever necessary, up until the date that answers are accepted into evidence as written cross-examination.”


OCA does not want to jeopardize the negotiation position of the Postal Service. Nor does it want to analyze the subject costs based on what may have been inaccurate cost projections. One reasonable middle ground would be to require the Postal Service to file updates to its worksheets pursuant to protective conditions. Another possibility would be to have the Postal Service reveal when the contract negotiations will be

⁷ Objection at 1.

concluded, and require updates at that juncture. The danger of that approach, however, is that negotiations could drag on for some time, so that final updated information will not make it to the record in this proceeding. Perhaps the Presiding Officer can set a reasonable date for disclosure of the relevant contract information by the Postal Service, which would motivate the Postal Service to conclude its negotiations.


In any event, there are discouraging signs that the data in witness Treworgy's worksheets is far from complete. We thus move to compel response to the subject interrogatory.

Respectfully submitted,


SHELLEY S. DREIFUSS
Attorney

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


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